

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00  
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00  
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05  
SS-15 STR-04 CEA-01 PRS-01 PA-02 OES-06 HEW-06  
CU-04 AGRE-00 /111 W

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P 142106Z APR 77

FM AMCONSUL QUEBEC

TO SECSTATE WASHDC PRIORITY 957

INFO AMEMBASSY OTTAWA

AMCONSUL MONTREAL

UNCLAS SECTION 1 OF 2 QUEBEC 0153

DEPT PASS TREASURY, CEA, FRB

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJECT: BANKER'S BUDGET FOR QUEBEC

1. SUMMARY: WITH ADMONITION THAT "ROAD TO INDEPENDENCE NEEDS HEALTHY FINANCING," QUEBEC FY 1977-78 BUDGET ANNOUNCED APRIL 12 PUTS GREATEST EMPHASIS ON REDUCING DIRECT PROVINCIAL BORROWING REQUIREMENTS. HYDRO-QUEBEC WAS ALSO "INFORMED" OF NEED TO MODERATE ITS DEMANDS ON FINANCIAL MARKETS. BORROWING REQUIREMENTS ARE PROJECTED TO BE C\$ 900 MILLION, DOWN 34 PERCENT FROM LAST YEAR. (SEE TABLE). BUDGET CONTAINS NO SIGNIFICANT TAX REDUCTIONS, LIMITED INCREASES IN SOME EXISTING PROGRAMS, AND RESOURCE REALLOCATION TO PERMIT NEW SPENDING FOR JOB CREATION. TIGHTER COST ACCOUNTING AND REVENUE CONTROLS ARE STRESSED. NEED FOR AUSTERITY IS PREDICTIBLY BLAMED ON SPENDING EXCESSES OF BOURASSA GOVERNMENT AND "INADEQUATE" FEDERAL-PROVINCIAL REVENUE SHARING ARRANGEMENTS. THREAT OF SPENDING BEYOND BUDGET ESTIMATES IS RECOGNIZED. DETAILS ON PUBLIC SECTOR FINANCING FOLLOW SEPTEL. END SUMMARY.

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WM FINANCE MINISTER PARIZEAU EMPHASIZED FISCAL CONSTRAINTS IN BUDGET SPEECH WHICH LIMIT PQ ABILITY TO MOVE FORWARD ON SOCIAL GOALS OR REDUCE HEAVY PROVINCIAL TAX BURDEN. HE IDENTIFIED THREE CAUSES:

A. NEW FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS ARE "INADEQUATE," HE SAID, SINCE NET IMPACT OF REVENUE SHARING HAS BEEN NEUTRAL OR

BALANCED IN FAVOR OF FEDERAL GOVERNMENT. WHILE SPENDING WITH FEDERAL ASSISTANCE ON HEALTH, EDUCATION, AND WELFARE HAS LEVELED OFF, PROVINCIAL AND LOCAL NEEDS FOR TRANSPORT, URBAN RENEWAL, AND ENVIRONMENT PROTECTION HAVE RISEN. WITH FEDERAL GOVERNMENT CONTROLLING GREATER SHARE OF TAXES (ON INCOMES) WHICH INCREASE MOST RAPIDLY WITH ECONOMIC GROWTH, OTTAWA WAS ABLE SINCE 1971 TO INDEX INCOME TAXES, CUT TAXES BY \$4 BILLION, AND INCREASE SPENDING BY \$5 BILLION. YET WHILE ENJOYING THIS \$9 BILLION MARGIN-- WHICH BROUGHT OTTAWA INTO MANY PROGRAM AREAS "CLEARLY UNDER PROVINCIAL JURISDICTION" ACCORDING TO PARIZEAU--PROVINCES WERE REQUIRED OVER THE SAME PERIOD TO INCREASE TAXES AND SPENDING BY EVEN GREATER AMOUNT. PARIZEAU ASSERTED THE NEW BALANCE OF ALL TAX CHANGES SINCE 1971 BY THE TWO LEVELS OF GOVERNMENT WAS NOT A DECREASE OF \$4 BILLION, BUT AN INCREASE OF \$700 MILLION, WITH PROVINCES BEARING THIS EXTRA BURDEN.

B. IN THE PAST TWO YEARS, THE BOURASSA GOVERNMENT ALLOWED SPENDING TO GET OUT OF CONTROL, HE SUGGESTED, THROUGH MEASURES SUCH AS "UNEQUALED GENEROSITY" IN PUBLIC SECTOR WAGE INCREASES AND "MONTREAL VENTURES" (READ OLYMPIC SPENDING).

C. PARIZEAU STATED FRANKLY THAT QUEBEC HAD ALSO TAKEN ON A NUMBER OF TAX AND SPENDING PROGRAMS BECAUSE QUEBEC WANTED ATTRIBUTES OF A SOVEREIGN GOVERNMENT TO ENACT ITS OWN PROGRAMS. THESE INCLUDED ITS OWN INCOME TAX, FAMILY ALLOWANCES, RADIO AND TELEVISION, AND "EXTENSIVE REPRESENTATION ABROAD."

3. AS A RESULT OF THESE FACTORS, THE COMBINED PROVINCIAL AND MUNICIPAL

FISCAL BURDEN IN QUEBEC IS GREATER THAN IN ANY OTHER PROVINCE-- ABOUT \$1,000 HIGHER THAN IN CANADIAN MEAN FOR FAMILY OF FOUR.  
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IN ADDITION, THE PUBLIC DEBT HAD "EXPLODED," WITH PUBLIC SECTOR BORROWING RISING AT UNSUSTAINABLE RATES OF MORE THAN 50 PERCENT IN 1975 AND 60 PERCENT IN 1976. WHILE TAXES COULD NOT BE INCREASED IN VIEW OF THIS BURDEN, NEITHER COULD THEY BE REDUCED BECAUSE OF THE SIZE OF THE DEBT.

4. UNEMPLOYMENT WAS ANNOUNCED AS 11.5 PERCENT OF THE LABOR FORCE IN FEBRUARY, OR TOTAL JOBLESS OVER 300,000 IN THE PROVINCE. SPENDING PLANS ARE TO BE REVIEWED FOR POSSIBLE REDUCTIONS TO MAKE ROOM FOR \$175 MILLION IN NEW SPENDING, NOTABLY FOR TEMPORARY JOB CREATION. IN ADDITION, PARIZEAU SAID HE EXPECTS EMPLOYMENT WILL BE HELPED BY HIGH RATES OF INVESTMENT IN UTILITY CONSTRUCTION AND THAT PROVINCIAL PROCUREMENT POLICIES FAVORING GOODS PRODUCED IN QUEBEC WILL ALSO HELP SPUR INVESTMENT AND EMPLOYMENT IN MANUFACTURING. PARIZEAU NOTED THAT UNEMPLOYMENT INSURANCE ALLOWANCES AND SOCIAL WELFARE BENEFITS HAVE A NASTY TENDENCY TO EQUAL OR EXCEED THE MINIMUM WAGE, AND TAXPAYERS CANNOT BE BLAMED FOR KNOWING HOW TO COUNT.

5. SPENDING ON HEALTH AND EDUCATION IN PARTICULAR WILL BE PUT UNDER STRICTER CONTROLS. MOST FAILING FIRMS SHOULD NOT LOOK TO THE GOVERNMENT TO BAIL THEM OUT, HE SAID.

6. TAX INCREASES WERE ANNOUNCED ON VEHICLE REGISTRATION, AND A NEW TAX OF TWO PERCENT WAS IMPOSED ON ADVERTIZING IN RADIO AND TV PROGRAMS TRANSMITTED OR BROADCAST FROM QUEBEC. A TAX EXEMPTION ON CHILDREN'S CLOTHING AND SHOES WAS REMOVED, BUT THE REVENUE GENERATED WILL BE SPENT ON INCREASING FAMILY ALLOWANCES BY 27 PERCENT. TAXES ON MEALS WILL BE INCREASED TO TEN PERCENT FROM 8 PERCENT, BUT THE EXEMPTION PER MEAL WILL BE INCREASED FROM TWO DOLLARS TO \$3.25, WITH A NEUTRAL REVENUE EFFECT.

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P 142118Z APR 77  
FM AMCONSUL QUEBEC  
TO SECSTATE WASHDC PRIORITY 958  
INFO AMEMBASSY OTTAWA  
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7. TAX ENFORCEMENT IS TO BE TIGHTENED, WITH INTEREST ON UNPAID BALANCES OWED BY TAXPAYERS INCREASED TO 15 PERCENT.

8. COMMENT. WHILE SUCH A BUDGET CANNOT BE EXPECTED TO BE POPULAR, THE LACK OF SIGNIFICANT TAX INCREASES AND A FEW HIGHLY VISIBLE BENEFITS SUCH AS HIGHER FAMILY ALLOWANCES SHOULD HELP EASE THE PAIN.

9. PARIZEAU RECOGNIZED THAT HE HAS A CREDIBILITY PROBLEM IN BRINGING DOWN SUCH A RESTRICTIVE BUDGET. SPENDING BUDGETED A YEAR AGO TO RISE 13 PERCENT INCREASED BY 18 PERCENT BEFORE THE YEAR WAS OVER, MOSTLY BECAUSE OF PUBLIC SECTOR WAGE INCREASES. ALTHOUGH MOST SUCH CONTRACTS ARE NOT COMING UP FOR RENEWAL THIS

YEAR, PQ EFFORTS TO HOLD DOWN WAGE AND PRICE INCREASES--AND COSTS TO GOVERNMENT--WILL FACE A CRUCIAL TEST AT THE LABOR/ MANAGEMENT MEETINGS SCHEDULED TO START IN MAY. IN ADDITION, PRESSURE TO DO MORE ABOUT UNEMPLOYMENT MAY WELL INCREASE. THE PQ'S ABILITY TO DEMONSTRATE THAT IT CAN PRODUCE "GOOD GOVERNMENT," AS ASSERTED IN THIS BUDGET, WILL BE SEVERELY TESTED. MANY HERE SEE THE AUSTERITY OF THIS BUDGET AS GUAGED TO PROVIDE GREATER ROOM FOR GENEROSITY IN FUTURE AS TIMING OF REFERENDUM APPROACHES.

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10. TABLE. ALL FIGURES IN MILLIONS OF CANADIAN DOLLARS.

QUEBEC GOVERNMENT TRANSACTIONS AND  
DIRECT PROVINCIAL DEBT

	FY 1976-77E	FY 1977-78F
EXPENDITURES	10,225	11,535
RECEIPTS	9,200	10,895
DEFICIT	1,025	640
EXPENDITURES NOT		
REQUIRING DISBURSEMENTS (1)	180	220
BUDGETARY DEFICIT (2)	845	420
NON-BUDGETARY DEFICIT	200	200
LOANS REPAID	355	280
VARIATIONS IN WORKING CAPITAL	(42)	-
BORROWING REQUIREMENT	1,358	900
LESS: LOANS REPAID	355	280
INCREASE IN DEBT	1,003	620
DIRECT PROVINCIAL DEBT	5,959	6,579

(1) E.G., LIABILITIES TO PENSION FUNDS

(2) I.E., BUDGETARY OPERATIONS REQUIRING FINANCING

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## Message Attributes

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